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Egypt's Food and Financial Problems

1. Egypt is still in a serious financial squeeze. Its most pressing need is additional wheat. It needs 2.4 million metric tons of wheat per year. To meet requirements through 30 June 1967, Egypt has already ordered 1.5 million tons, for which it has contracted debts of over \$105 million, \$45 million of which must be paid in calendar 1967. Purchases through commercial channels to get the remaining 0.9 million tons will cost about \$73 million, of which some \$15-20 million must be paid in calendar 1967. (See Table I). Concurrently, imports of other essential foodstuffs have continued, and additional debts have been amassed.

2. Between 1966 and 1968, Egypt will remain in considerable need of outside financial help. Nothing the Egyptian Government itself can do will provide substantial relief. The waste, inefficiency, and foreign adventurism of the past 14 years were facilitated by funds that now are exhausted. If the latest plans for internal reform are adopted and an austerity program is implemented during the interim, new income should become available in 1968-70 that could support renewed growth.

3. In early October, Egypt had only \$148 million in gold and foreign exchange reserves. Cairo was selling gold to meet debt commitments and even smuggling its own currency abroad to convert into foreign exchange at free market rates. Servicing the foreign debt contracted before January 1966 entails obligations of at least \$250 million in calendar

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1967. Wheat purchases and other obligations incurred since January 1966 have raised the total due in 1967 to nearly \$350 million--over half of annual export earnings. The amount payable in hard currency during 1967 probably has been increased from about \$180 million to over \$250 million.

4. The Nasir regime unilaterally can do little to resolve the dilemma, which has been created partly by its own wasteful economic policies and foreign adventurism. Egypt would have to cut imports by at least \$200 million annually to balance current accounts--eliminating, for example, all capital goods or all industrial inputs, fuels, fertilizers, and similar items that support industry and agriculture. Stopping arms deliveries would have little effect because payments for current purchases would not begin for several years. Withdrawal from Yemen would save only about \$40 million annually (perhaps \$10 million in foreign exchange) and might cause a short-term increase in outlays for transportation and related expense. Export earnings from cotton probably will be the lowest in several seasons, because major importers such as the UK and India are suffering from balance of payments difficulties themselves and because the prices of competing synthetic fibers recently have been cut. Abandonment of already curtailed domestic aircraft, missile, and atomic energy programs probably would save no more than \$10 million (perhaps \$2 million in hard currency).

5. Measures to conserve foreign exchange already have been introduced that have hit both the military payroll and the individual consumer. A dual program to increase export earnings from rice is under way, combining increased retail prices to the domestic consumer and premium prices to farmers who exceed their export-destined quotas. New programs to improve corn yields and to provide free wheat for urban consumption already have permitted a reduction in corn imports.

6. The Communist countries are unlikely to provide suitable assistance in any great quantity. A complete moratorium on debt obligations to Communist creditors would save Egypt only about \$50 million in 1967--paid primarily in cotton that Egypt

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cannot sell for hard currency without glutting existing markets. Egypt's total trade deficit in 1965 was attributable to exchanges with the US and Western Europe, and most of the goods Egypt needs are not readily available elsewhere. The USSR has sufficient wheat to provide the entire 0.9 million tons Egypt needs for the remainder of FY 1967 but clearly is not anxious to cover any substantial portion of that total. The Soviets themselves are spending hard currency to import wheat and are using their own large crop to stockpile wheat against future needs. The Chinese Communists also might provide a small amount of wheat to Egypt for political reasons, although again at a hard currency cost to themselves. Rumania and Bulgaria each has offered a small surplus for export to hard currency purchasers. Barring the threat of actual famine conditions in Egypt, however, Communist sources are likely to provide only the minimum that they consider politically necessary.

7. Attempts to grow all wheat needed domestically might be feasible but certainly would be economically disastrous. Egypt would have to increase acreage by 150 percent while maintaining yields more than double the world average. With the resulting loss of export crops, Egyptian agriculture itself would be converted from a foreign trade asset earning over \$150 million annually to a balance of payments liability on the order of at least \$125 million. (See Table II) Related dislocations would create chaos throughout the rest of the economy.

8. The International Monetary Fund (IMF) apparently is Egypt's only source of short-term relief. An agreement with the Fund could provide up to \$86 million in cash over a one-year period and probably would facilitate negotiation of a multilateral debt deferral program with Western creditors. The IMF's price is a stabilization program that entails higher domestic prices, increased taxes, more severe cuts in supplies of consumer goods, curtailment of development plans with a consequent loss in employment, and cutbacks in welfare schemes. Negotiations are stymied by disagreement on the size of the required currency devaluation. Meanwhile, Egypt must find \$5 to \$10 million each week simply to stave off creditors and avoid triggering trade suspensions.

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9. By 1968, two new factors--oil and the Aswan High Dam--will begin adding to foreign earnings. A new oil field, slated to produce 150,000 barrels per day by late 1967, probably will provide a net gain of about \$70 million in the trade balance by 1968. (See Table III.) The crude oil potential is enhanced by other new strikes, by plans to expand output from existing fields, and by encouraging signs of further oil strikes in the Western Desert.

10. In addition to direct cash gains, Egypt could enjoy substantial fringe benefits from its oil assets. Petroleum refining accounts for 10 percent of total industrial production, expansion projects have a high priority, and refineries consistently operate near capacity, in contrast to other Egyptian industry. Petrochemical plants could provide badly needed fertilizer and other products. And, if the cash returns from oil concessions are sufficiently large, the regime eventually may recognize that Egyptian self-interest could be served by opening the door slightly to some other private capital.

11. The Aswan High Dam, essentially an electric power project, will provide a temporary respite from the growing pressure of population on land. Although cultivated land per capita will be no greater in 1968 than in 1960 (only 0.233 acres), Aswan and other completed reclamation schemes will limit the decline in acreage per person during the 1960-72 period to about 10 percent, compared with the 30 percent drop that would have occurred without addition of new lands. (See Table IV.)

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~~CONFIDENTIAL~~TABLE IEstimated Cost and Terms of FY 1967 Wheat Imports

| <u>Supplier</u> | <u>Amount (thousand m.t.)</u> | <u>Total Cost (million \$)</u> | <u>Repayment Schedule (million \$)</u> | | | | |
|---------------------------------|-----------------------------------|------------------------------------|--|-------------|-------------|-------------|------------------|
| | | | <u>Calendar</u> | <u>1966</u> | <u>1967</u> | <u>1968</u> | <u>1969 1970</u> |
| France | 200 | 15 | 2 | 9 | 4 | | |
| Greece | 100 | 7 | 1 | 3 | 3 | | |
| U.S. | 910 | 62 | | 22 | 21 | 19 | |
| Germany | | | | | | | |
| & Italy* | 125 | 7 | 1 | 4 | 2 | | |
| Other | 200 | 15 | 2 | 9 | 4 | | |
| Subtotal | 1,535 | 106 | 6 | 46 | 34 | 19 | |
| Balance needed** | 900 | 73 | | 19 | 19 | 18 | 17 |
| TOTAL | 2,435 | 179 | 6 | 65 | 53 | 37 | 17 |
| Of which, principal interest | | 161 18 | | | | | |

* As flour

** Assuming ordinary commercial purchase

NOTE: Totals may not add due to rounding.

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TABLE II

Balance of Payments Impact of Domestic Wheat Production

(1) Agricultural foreign transactions, 1965

| | | |
|------------------|---|----------------------|
| Export earnings: | Major crops | \$425 million |
| | Cotton yarn and fabric | 98 |
| | Tobacco, hides & other | 2 |
| | Total income | <u>\$525 million</u> |
| Expenditures : | Wheat and flour imports | \$142 million |
| | Other farm product imports | 140 |
| | Imports of fertilizer, etc. | 43 |
| | Imports of farm equipment (est.) | 20 |
| | Payment for technical assistance, debt service, etc. (est.) | 25 |
| | Total expenditure | <u>\$360 million</u> |

Net earnings : \$165 million

(2) Cost of diverting acreage to wheat

| | | |
|------------------|---------------------------|-------------------------|
| Acres required : | Annual wheat requirement: | 4.1 million metric tons |
| | 1966 wheat production : | 1.6 million metric tons |
| | 1966 wheat acreage : | 1.5 million acres |
| | Acreage to grow balance : | 2.3 million acres |

Acreage devoted to export production, 1965

| <u>Crop</u> | <u>Total acreage (million)</u> | <u>Share of crop exported</u> | <u>Export acres (million)</u> | <u>Export earnings (million \$)</u> |
|------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------------|
| Cotton | 2.0 | 75% | 1.5 | 420 |
| Rice | 1.1 | 35 | 0.4 | 46 |
| Onions | 0.2 | 35 | 0.1 | 16 |
| Beans | 0.4 | 30 | 0.1 | 5 |
| Other vegetables | 1.8 | 10 | 0.2 | 5 |
| TOTALS | 5.5 | | 2.3 | 492 |

(3) Net loss in agricultural earnings abroad

| | | |
|-----------------------------|---|----------------------|
| Current export income | : | \$525 million |
| Exports sacrificed | : | 490 |
| Remaining export income | : | <u>\$35 million</u> |
| Current foreign costs | : | \$360 million |
| Import and interest saving: | | 190 |
| Remaining foreign costs | : | <u>\$170 million</u> |
| Net deficit | : | <u>\$135 million</u> |

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| | |
|--|--------|
| At export prices (\$1.35/barrel), projected total 1968 output (150,000 b.p.d., or 7.5 million m.t./year) = | \$72.9 |
| The 60% share retained by Egypt = 4.5 mil. m.t. = | \$43.7 |
| At prices Egypt currently pays to import crude (\$14.80/m.t.), the share retained by Egypt = | \$66.6 |

| | |
|---|--------|
| <u>Value as substitute for 1965 product imports</u> | \$ 7.5 |
| Total value as import saving | \$74.1 |

Other Factors

Related annual debt service = minus \$5.0 million
Receipts from added exports of refined products = plus \$1-2 million per ton over the crude import price above.

1968 Balance: Net improvement in trade balance of \$70 million

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TABLE IVChanges in Land per Capita

| | <u>Cultivated Area*</u> <u>(million acres)</u> | <u>Population</u> <u>(millions)</u> | <u>Cultivated Acres/Capita</u> |
|----------------|---|--|--------------------------------|
| 1945 (approx.) | 5.73 | 18.0 | 0.318 |
| 1952 | 5.67 | 21.5 | 0.264 |
| 1960 | 6.02 | 25.8 | 0.233 |
| 1965 | 6.23 | 29.8 | 0.209 |
| 1968 (proj.) | 7.58 | 32.5 | 0.233 |
| 1972 (proj.) | 7.58 | 36.6 | 0.207 |

*Includes future reclamation only if related to Aswan High Dam.

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